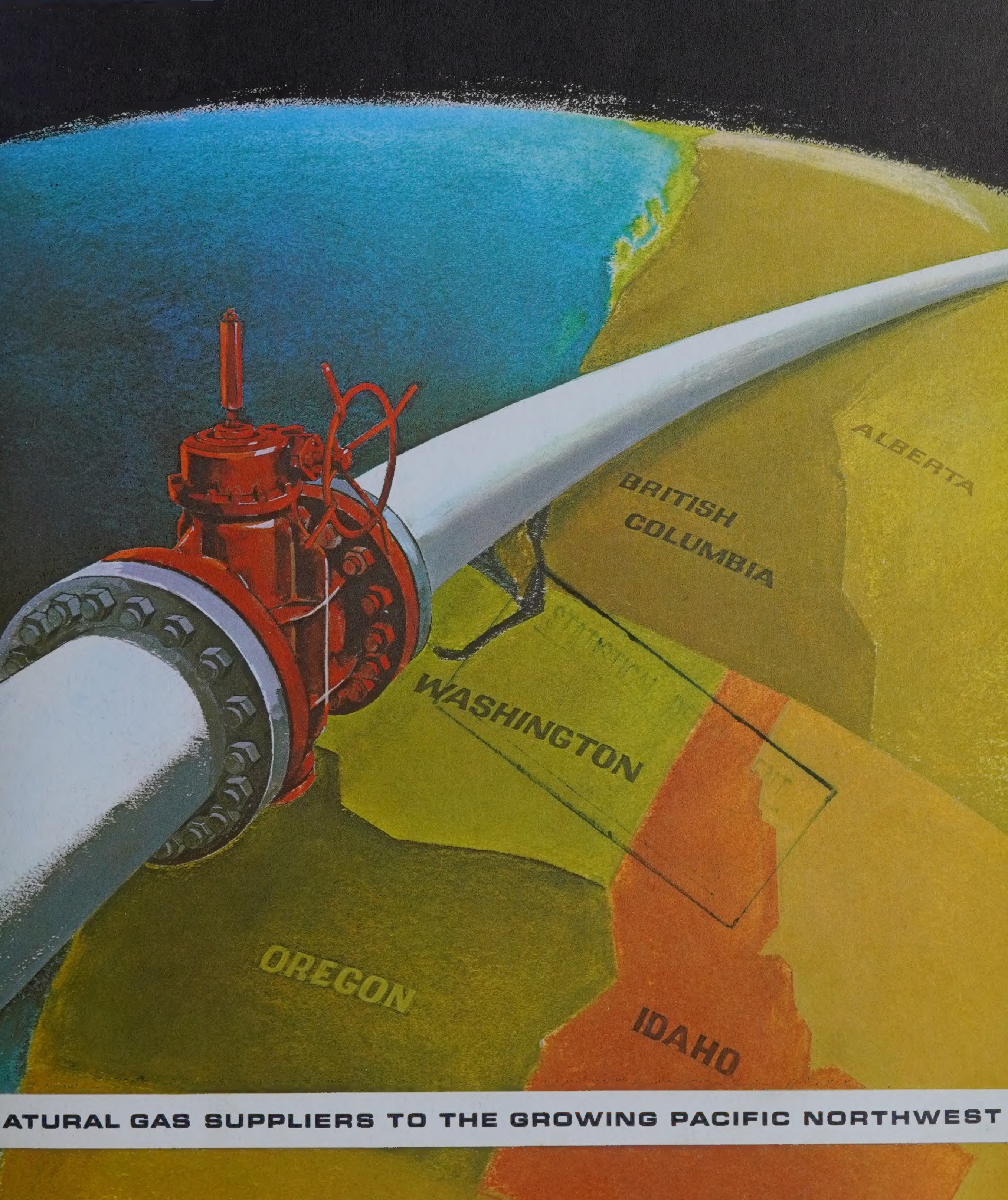
ESTCOAST TRANSMISSION COMPANY LIMITED/ANNUAL REPORT 1967



ATURAL GAS SUPPLIERS TO THE GROWING PACIFIC NORTHWEST

WESTCOAST TRANSMISSION COMPANY LIMITED

Incorporated by Special Act of the Parliament of Canada

DIRECTORS

LLOYD S. GILMOUR, New York, N.Y.
C. R. HETHERINGTON, Vancouver, B.C.
CLIFFORD F. HOOD, New York, N.Y.
JOHN M. HOUCHIN, Bartlesville, Okla.
ARTHUR F. MAYNE, Montreal, P.Q.
DOUGLAS P. McDONALD, Q.C., Calgary, Alberta
FRANK M. McMAHON, Vancouver, B.C.
GEORGE McMAHON, Calgary, Alberta
DOUGLAS OWEN, Vancouver, B.C.
HON. FRANK M. ROSS, C.M.G., M.C., K.ST.J., LL.D., Vancouver, B.C.
R. B. STEWART, Vancouver, B.C.
NORMAN R. WHITTALL, Vancouver, B.C.

OFFICERS

FRANK M. McMAHON, *Chairman of the Board and President*
R. B. STEWART, *Vice President*
DOUGLAS OWEN, *Executive Vice President and Treasurer*
DOUGLAS P. McDONALD, Q.C., *Senior Vice President and General Counsel*
GEORGE McMAHON, *Vice President – Production*
W. D. BRADY, *Vice President – Personnel and General Services*
DANIEL A. FREEMAN Jr., *Vice President – New York Office*
PETER R. KUTNEY, *Vice President – Gas Sales and Supply*
LLOYD K. TURNER, *Vice President – Public Relations*
A. T. TYLER, *Vice President – Planning*
LEONARD M. YOUELL, *Vice President and Secretary*

OTHER EXECUTIVES

C. R. HETHERINGTON, *Executive Assistant to the President*
DAVID O. HUNTER, *Assistant Treasurer*
R. C. MORDAN, *Manager – Operations and Engineering*
JOHN PAYNE, *Comptroller*

Executive and Operating offices:
1155 WEST GEORGIA STREET, VANCOUVER 5, B.C.

Calgary Office:
PETROLEUM BUILDING, CALGARY, ALTA.

New York Office:
1 CHASE MANHATTAN PLAZA, NEW YORK, N.Y., 10005

EXECUTIVE CHANGES

During the year, R. B. Stewart resigned as president of Westcoast and was subsequently elected president of the Company's affiliate, Western Pacific Products & Crude Oil Pipelines Ltd. Mr. Stewart continues to serve as a Westcoast director and vice president.

Following Mr. Stewart's resignation, Chairman of the Board Frank M. McMahon was re-elected president of Westcoast.

C. R. Hetherington, executive assistant to the president of Westcoast, was appointed a director, filling a vacancy created by the death in December 1966 of A. B. Allyne, a director and vice president.

Peter R. Kutney, Manager – Gas Sales and Supply, and A. T. Tyler, Manager – Planning, were elected vice presidents.

ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held in the Thompson Room of the Bayshore Inn, Vancouver, British Columbia, at 11:00 o'clock in the forenoon on July 31st. A formal notice of the meeting, together with a proxy statement and a form of proxy for those who are unable to attend, is being mailed to each Shareholder.

Burns Bros. and Denton Limited

44 KING STREET W.
TORONTO 1
363-7585

C. F. W. BURNS, CHAIRMAN
L. C. BURNS, PRESIDENT

VICE-PRESIDENTS
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TORONTO — MONTREAL — VANCOUVER — CANADIAN STOCK EXCHANGE

PROGRESS REPORT

WESTCOAST TRANSMISSION COMPANY LIMITED

August 3, 1967

Price: $29 1/4 **Dividend:** $0.25 **Yield:** No set dividend rate announced

At the annual meeting on July 31, Mr. F. McMahon, President of Westcoast, announced record earnings for the first quarter to June 30, of $2,411,358 or 36¢ per share, up from 4¢ per share in the first quarter of fiscal 1967.

The high level of earnings resulted from:

1) El Paso purchasing gas under an interim contract for 100 million cubic feet per day (mmcf/d) at 100% load factor at 32.995¢ U.S./mcf in addition to purchases under the 1954 contract.

2) Increased sales to Inland Natural Gas for two pulp mills which came on stream in the second quarter of fiscal 1967 and thus did not affect 1st quarter earnings last year.

Outlook:

El Paso Natural Gas and Westcoast have placed a compromise proposal before the Federal Power Commission. Under the term of this proposal, the existing (1954) contract for 300 mmcf/d at 22¢/mcf continues in effect until December 31, 1977. The new contract will be for 200 mmcf/d (at 90% load factor and 90% take-or-pay for the first five years) at 31 1/3¢ U.S./mcf.

Should this new proposal be approved by the F.P.C., it will be necessary to obtain approval of the new pricing arrangement from the National Energy Board. The new price of 31 1/3¢ U.S./mcf appears to be sufficiently above the prices paid by B.C. Hydro or Inland, to meet the criteria of the N.E.B.

Earnings Projection:

	Reported	Estimated			
	1967	1968	1969	1970	1971
Earnings per share (6,664,084 shares)	$0.74*	$1.43	$1.67	$1.99	$2.31

* Excludes non-recurring item.

These projections assume:

1) Implementation of the compromise proposal on November 1, 1967.

2) Sale to El Paso of an additional 100 mmcf/d at 31 1/3¢ U.S./mcf commencing Nov. 1, 1969.

3) Sale of an additional 100 mmcf/d at 31 1/3¢ U.S./mcf commencing Nov. 1, 1970.

These projections do not include potential earnings from oil production by Westcoast Production or Western Pacific Products & Crude Oil Pipeline. As a result of the recently announced discovery of oil by Westcoast in the Rainbow-Zama area, the prospects for significant oil income become very real. The outlook beyond 1971 is for steady growth in earnings.

This growth will be moderated as the company reaches a tax-paying position, but the necessary pipeline expansion coupled with oil and gas exploration and development write-offs will result in no income taxes being paid until well into the 1970's. There is dilution to be expected amounting to 2,530,000 shares (38%) prior to 1976-1978 as a result of the outstanding convertible debentures. If full dilution occurred, earnings are projected at $2.19 per share in 1971.

With the initial dividend now paid and Mr. McMahon's announcement that another dividend would be forthcoming in September, Westcoast now offers some income with excellent prospects that this income will increase.

At current levels the stock offers the prospect of sizeable capital appreciation over the next two or three years. The risk that the regulatory authorities will reach a standoff still exists but the probability of this standoff occurring appears to be small.

Our Investment Study of January, 1967, recommended Westcoast as a speculative investment. As a result of recent events, the risks involved have lessened. It appears that approvals with favourable pricing arrangements may be reasonably expected.

We continue to recommend this stock as a speculative investment which now offers good probabilities of capital gain against a slight probability of a capital loss.

A. E. Smith
Research Department

AES/mt

August 3, 1967

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TORONTO — MONTREAL — VANCOUVER — CANADIAN STOCK EXCHANGE

PROGRESS REPORT

AR41

June 5, 1967

WESTCOAST TRANSMISSION COMPANY LIMITED

Price: $26 1/4 Dividend: $0.25 Yield: No Dividend Rate set

1967 Earnings

Westcoast Transmission recently announced preliminary results for the fiscal year ended March 31, 1967. Reported earnings per share for 1967 were $0.83 compared with $0.34 per share in 1966. The 1967 reported earnings included a non-recurring amount from sale of investments of $630,895. Elimination of this non-recurring item results in earnings per share of $0.735 for the year to March 31, 1967.

The company reported sales of natural gas amounted to 191.04 billion cubic feet for the year.

In our report of January 1967, we estimated that 1967 fiscal year sales would total 208 bcf, made up of 123 bcf to El Paso, 67 bcf to B.C. Hydro, 15.9 bcf to Inland Natural Gas and 2.4 bcf of miscellaneous sales, and based on these estimates, that Westcoast would report 92¢ for fiscal 1967.

We calculate the actual results were El Paso 115 bcf, B.C. Hydro 56 bcf and Inland Natural 18.7 bcf (actual reported April 28th).

The reduced volumes from our January estimates were caused by 1) Inability of El Paso to take 400 mmcf/d until early December. 2) Delayed delivery of a compressor for the Westcoast system resulting in capacity reaching 725 mmcfd in early February rather than late November as expected.

The reduced capacity forced Westcoast to interrupt deliveries to B.C. Hydro's Burrard thermal plant and replace the interrupted gas with fuel oil at no increased cost to B.C. Hydro, thus reducing B.C. Hydro's total gas take.

Gas Export Proceedings

The interim license to export an additional 100 mmcfd at 100% load factor at 32.99¢ U.S./mcf which was to expire June 1, 1967 has been extended by the National Energy Board to October 31, 1967 or to any earlier date by which Westcoast has obtained N.E.B. approval of the price schedule in the application authorized on March 30, 1967. (27¢ U.S./mcf at 85% load factor for all gas exported) Westcoast must apply for approval within 30 days of a final decision by the F.P.C.

It should be noted that if the F.P.C. decision is to allow the increased imports of natural gas at the prices recommended by the hearing examiner (300 mmcf/d at 22¢ U.S./mcf at 85% load factor and 200 mmcf/d at 29.5¢ U.S./mcf at 85% load factor), it will be necessary for Westcoast to either renegotiate their contract with El Paso and reapply to the National Energy Board for approval of the new pricing arrangements or renegotiate some new price and attempt to get both F.P.C. and N.E.B. approvals.

May 29 marked the last day for filing of exceptions to the examiner's decision. Replies to the exceptions may be filed up to June 8, 1967, at which date the Commission will probably set dates for oral argument.

El Paso filed an exception to the Examiner's decision on May 29. Included in this brief was a letter from Westcoast stating that the price recommended by the examiner would be too low to enable Westcoast to arrange necessary financing.

Several state commissions filed exceptions based on the possibility of a gas shortage if El Paso's application is not certified as filed.

The submission to the F.P.C. by El Paso of Westcoast's letter testifying that the F.P.C. examiner's price of 29.5¢/mcf for the additional 200 mmcfd is not high enough to make the project economically feasible may be viewed as the first step in the bargaining.

This approach may very well lay the foundation for a compromise price in the middle ground between 33 1/2 ¢/mcf originally agreed upon and the 29.5¢/mcf.

Under the F.P.C. proposal, assuming Westcoast and El Paso were able to reach agreement, and that upon expiry of the 1954 contract in 1977 the volumes under the 1954 contract are re-contracted at 29.5¢/mcf, the price for all gas would become 29.5¢/mcf in 1978. Under the "1966 Contract" as applied for, the 27¢ price with 0.225¢ per year escalation would be raised to 29.475¢/mcf by 1978. Thus, the long term implications are not as unfavourable as they may appear.

At $26 1/4 Westcoast would appear fully priced considering both the possibility that the F.P.C. and N.E.B. may reach a standoff over the pricing (not very probable) and the possibility that Westcoast may receive a better price than that recommended by the examiner.

However, provided the procedural difficulties are overcome and final approvals are obtained, we expect Westcoast Transmission will qualify as a sound investment for capital appreciation and reasonable dividend yield.

A. E. Smith
Research Department

Burns Bros. and Denton Limited BB

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PROGRESS REPORT

AR41

May 16, 1967

WESTCOAST TRANSMISSION COMPANY LIMITED

Current Price: $27 3/4 Dividend: $0.25 Yield: No set dividend rate announced

On May 13, 1967 the F.P.C. Hearing Examiner's recommendation to the Federal Power Commission concerning El Paso Natural Gas Company's application to import additional gas was released.

The examiner recommended that El Paso be certificated to import an additional 200 million cubic feet per day (mmcfd) of gas from Canada conditional upon El Paso and Westcoast negotiating a new contract with a two-part rate (Combination of Demand charge and Commodity charge) which results in a price of not more than 29.5¢ (U.S.) per mcf at 85% Load Factor with no escalation or price renegotiation factors for the term of the contract.

The effect of a new contract meeting the above conditions would be to reduce Westcoast's future earnings considerably from those projected in our Report of January 1967.

The following earnings estimates are based on sale to El Paso of the first 98.5 billion cubic feet (bcf) per year (equivalent to 300 mmcfd @ 90% Load Factor) at the 1954 contract price, ($1.095/mcf demand and 18¢/mcf commodity) the remaining volume up to 100% Load Factor at the F.P.C. proposed price (Demand charge $2.456 U.S./mcf and Commodity charge 20¢ U.S./mcf) and any additional volume at the 1954 contract price. The figures in brackets are the earnings projections as shown in our report of January 1967.

Fiscal year to March 31	1968	1969
Estimated Earnings per share	$1.08 ($1.55)	$1.69 ($2.16)

The earnings beyond 1969 are conditional upon the price received by Westcoast for additional quantities of gas in 1969, 1970 and thereafter in line with the expected requirements as outlined in the "1966 contract".

The decision of the Hearing Examiner, condemning the proposed price under the 1966 contract as discriminatory to the U.S. purchaser, stems from consideration of the price of the additional gas on an incremental basis rather than on a "rolled-in" basis combining the gas purchased under the terms of the old contract with the gas proposed to be purchased under the new contract. The following figures compare the proposed prices to be paid by El Paso with those paid by B.C. Hydro and Inland Natural.

COMPARATIVE PRICES
(¢/mcf U.S. and 14.9 psia)

	El Paso				B.C. Hydro	Inland
	1954 Contract 1966 Contract "Rolled-In" [1]	1966 Contract Incremental [2]	F.P.C. Proposed "Rolled-In"	F.P.C. Proposed Incremental		
	95% L.F.	95% L.F.		95% L.F.	95%L.F.	95%L.F.
1967	26.47	33.49	24.47*	27.1	29.27	27.38
1968	26.69	34.04	24.47	27.1	29.27	28.48
1969	26.90	34.57	24.47	27.1	28.59	29.59
1970	27.12	35.12	24.47	27.1	--	29.70

* The price of 24.47¢ U.S. per mcf is calculated on purchasing gas at 95% load factor under the "1954 contract" price schedule and at 95% load factor under the "F.P.C. proposal". At 90% load factor for the "1954 contract" and 75% load factor for the "F.P.C. Proposal" the price on a rolled-in basis is calculated to be 25.13¢ U.S./mcf.

From the above table, it is apparent that on an incremental basis the 1966 contract prices payable by El Paso are substantially above those paid by the Canadian Distributor; while on a rolled-in basis under the 1966 contract, El Paso would purchase gas at slightly less cost than B.C. Hydro or Inland (Based on the load factors shown).

Also, it would appear that El Paso's cost of gas would be considerably below the cost to the Canadian purchaser under the "F.P.C. proposal" on either an incremental or rolled-in basis.

The problem is almost one of philosophy. Should El Paso pay the going rate for all gas purchased (cancelling the low-priced 1954 contract) or should El Paso only pay the going rate for additional purchases over and above that contracted for in 1954?

The above estimates show the earnings that may be expected from Westcoast if a new contract incorporating the proposed price structure is signed by Westcoast and El Paso and providing the National Energy Board approves the export of gas under the new price structure.

[1] "Rolled-In" means the average or overall price paid for all gas purchased.

[2] Incremental means the cost of additional gas when the present volumes are purchased at the existing price.

It should be noted that El Paso will have the opportunity to file an exception to the Examiner's decision. The Commission may alter the Examiner's recommendation based on consideration of the evidence and arguments including the final oral argument. As a result, the above earnings estimates would represent a "worst" case and some higher gas price may be obtained which would result in an improvement over the projections.

The F.P.C. has set the closing date for filing of exceptions to the examiner's recommendations at May 29, 1967. Parties to this proceeding have until June 8 to file replies to the exceptions. We expect that one of the parties will request oral argument be heard before the Commission. This would result in a date for oral argument being set, probably late June or early July, and the final decision being announced by the Commission in late July or in August.

Should the Commission's decision be in accord with the Examiner's recommendation, Westcoast would be forced to negotiate a new contract with El Paso incorporating the Commission's price condition or else forego the export of additional gas.

Before gas may be exported under any new pricing arrangement, it will be necessary for Westcoast to have the new contract approved by the National Energy Board. The National Energy Board approved the Westcoast application containing the 1966 contract on March 30, 1967.

It is our opinion that the prices proposed by the F.P.C. may be too low to receive N.E.B. approval but that the N.E.B. may approve some higher price which would eventually meet the approval of the F.P.C.

As a result, it would appear that the situation will not reach a final conclusion before late 1967.

Westcoast may be expected to show reasonably good earnings growth even under the F.P.C. pricing proposals. However, the stock would appear to have discounted the earnings growth under the F.P.C. price proposals over the next two years.

At current price levels, the stock may be considered to have nominal short term potential carrying the possibility of good gains if a more favourable gas price than that proposed by the F.P.C. is obtained.

A.E. Smith
Research Department

AES/mt

May 16, 1967

ANNUAL REPORT FOR THE FISCAL YEAR ENDED MARCH 31, 1967

INDEX

THE YEAR IN BRIEF

	1967	1966
FINANCIAL		
Operating Revenues	$ 55,633,000	$ 49,048,000
Net Income	$ 5,531,000	$ 2,293,000
– per Share	83¢	34¢
Cash Flow from Operations	$ 13,979,000	$ 11,194,000
– per Share	$ 2.10	$ 1.68
Total Assets	$309,776,000	$278,836,000
Shareholders' Equity	$ 78,536,000	$ 74,589,000
per Share	$ 11.78	$ 11.20
Shares Outstanding	6,665,084	6,657,784
Number of Shareholders	11,822	12,650
OPERATING		
Total Gas Sales, Mcf.	191,040,000	169,848,000
Daily Average Sales, Mcf.	523,397	465,337
Peak Day Sales, Mcf.	685,236	645,991
Number of Employees	402	330

The figures in the above table and elsewhere throughout the text of this Report do not include operating results of the Company's Kingsgate system under which Westcoast exports certain volumes of gas from southern Alberta to the United States. The Company has no investment in this system. It operates on a cost basis with revenues exactly offset by gas purchase and operating costs. The Kingsgate sales revenues and expenses are included in the aggregate figures given in the Consolidated Statement of Operations. However, since these offsetting entries do not affect overall financial results, they are omitted, for the sake of clarity, from all other financial and operating statistics given in this Report.

TO THE SHAREHOLDERS:

The fiscal year ended March 31, 1967, was, in all respects, the most successful in the history of the Company. Sales volumes, revenues and earnings increased to new record levels. The year was also highlighted by various important developments which broadened the base for accelerated growth in the future.

Sales of natural gas last year showed a 12% gain over the previous year, reaching a total of 191 billion cubic feet. Although the past winter was unusually warm in the Company's market area, average-day sales rose to 523 million cubic feet, compared with the previous year's figure of 465 million feet.

As a result of the sales increases during the year, the Company's revenues reached a new high of $55,633,000 and the cash flow from operations showed a 25% increase to $13,979,328. Net income amounted to $5,530,619, or 83¢ per share, more than double the previous year's earnings of $2,293,268 or 34¢ per share.

At the close of the year, the directors declared Westcoast's initial dividend of 25¢ per share. This was paid to shareholders on May 12.

Progress was made during the year toward obtaining the necessary governmental approvals to implement the new export contract negotiated last year between Westcoast and the El Paso Natural Gas Company. In March 1967, the National Energy Board of Canada approved the first phase of the new contract authorizing Westcoast to export an additional 200 million cubic feet of gas per day to the El Paso system in the U.S. Pacific Northwest. The corresponding application by El Paso to import this amount of gas proceeded satisfactorily through various stages of examination by the U.S. Federal Power Commission and, as this report went to press on

FRANK M. McMAHON
Chairman and President

June 23, 1967, the concluding oral arguments were being heard by the full Commission. The Commission's decision is expected at an early date.

The Westcoast application to the National Energy Board received strong support from the Province of British Columbia, from the Canadian utilities served by the Company, and particularly from the natural gas producers who supply the Westcoast system.

In the United States, the El Paso application was supported by the public service commissions in the states of Washington, Oregon and Idaho and by the area's utility companies. They testified that larger gas supplies are urgently required in these markets. Almost without exception these interested parties considered the proposed importation from Canada via Westcoast to be the most practical and economical method of meeting this need.

Approval of the El Paso contract will result in increased sales and earnings for Westcoast. The Company's currently authorized exports of 300 million cubic feet a day will be increased to 500 million cubic feet daily in the winter of 1967-1968 and it is planned that another application will be filed in the near future to increase this volume to 600 million feet daily in 1969. El Paso has an option under this agreement to purchase an additional 300 million feet daily and ultimately to increase its purchases to 900 million cubic feet per day.

While decisions were pending on the permanent Westcoast-El Paso contract, the Company agreed last winter to increase its exports to the United States by 100 million cubic feet per day. Westcoast was paid 35.6¢ (Canadian funds) per thousand cubic feet for the additional gas. This interim arrangement was authorized in order to meet the acute demand for additional gas supplies in the U.S. Pacific Northwest.

Westcoast's markets in British Columbia are expanding at an even faster rate than those in the northwestern United States. In the past year, the service areas of our two principal Canadian customers – British Columbia Hydro and Power Authority and Inland Natural Gas Co. Ltd. – showed the largest per capita increase in gas consumption of any market in Canada.

Another major British Columbia distributor, Pacific Northern Gas Ltd., is expected to begin operations in the coming year. This company was granted a permit by the provincial Public Utilities Commission to construct a $26 million distribution pipeline from the Westcoast system to Prince Rupert, B.C. Construction work on the line will commence this

winter. Besides supplying it with gas, Westcoast will be a co-owner of this new pipeline. Great Northern Utilities Limited, Canadian affiliate of Williams Brothers, a major U.S. pipeline firm, will also be a co-owner.

Large additional gas reserves have been and are being developed in our supply area. Of major importance to Westcoast was the confirmation of large new gas reservoirs in a previously untapped section of northern British Columbia straddling the Yukon and Northwest Territories borders. Two major fields, Beaver River and Pointed Mountain, have been established to date in this area by Pan American Petroleum Corporation, a subsdidiary of Standard Oil Company (Indiana). The productive gas zones in these reservoirs are up to 1,200 feet in thickness and it has been estimated authoritatively that the small section of this vast area which has been explored to date contains up to 10 trillion cubic feet of gas. The reserves of these fields have been committed to Westcoast under a gas purchase agreement negotiated with Pan American during the past year.

The maximum delivery capability of the Westcoast system at the present time is 700 million cubic feet per day. This capacity is not sufficient to meet Westcoast's present commitments and at the same time to supply the increased demands of the British Columbia market next winter. To assure fullest service in British Columbia, Westcoast began early this year a $15.6 million construction program to enlarge its gas gathering and supply system as well as to expand its compression and processing facilities. This program included extension of a 66-mile pipeline from Fort Nelson to connect the Yoyo, Sierra and Kotcho Lake fields.

Immediately following approval by the U.S. Federal Power Commission of the increased exports to El Paso, a further $49 million capital construction program will be undertaken to build additional compressor facilities and to instal 98 miles of 36-inch loop along the main pipeline system. This will increase the system's capacity to one billion cubic feet per day.

Westcoast's subsidiary and affiliate companies also achieved good results during the year and these are outlined more fully in another part of this report. Particularly noteworthy is the growth and earnings record of the Western Pacific Products & Crude Oil Pipelines Ltd. in which Westcoast holds a 45% interest (3,000,000 shares). In 1966, Western Pacific increased its throughput by 27% and showed a 55% increase in earnings. In mid-1967, the pipeline's throughput was running 30% ahead of last year's average.

Western Pacific is a partner of our wholly-owned subsidiary, Westcoast Production Company, in a number of oil and gas exploration ventures, many of which are centred in the Rainbow area of northwestern Alberta. Last year the two companies participated in three significant discoveries in the Rainbow oil play and they will do further drilling on their acreage throughout this area.

In addition to its work at Rainbow last year, Westcoast Production carried out an active and successful gas exploration program in British Columbia. The company also acquired more than 750,000 gross acres of additional land, raising its gross holdings to 3.6 million acres.

The Directors express deep regret at the death on December 31, 1966, of A. B. Allyne, a member of the Board and a vice president of the Company. Mr. Allyne was Chairman of the Operating Committee and rendered valuable service to the Company over a period of years.

In the place of Mr. Allyne, C. R. Hetherington, who is Executive Assistant to the President of Westcoast, was appointed to the Board. Dr. Hetherington, who holds a Doctorate of Science in engineering from the Massachusetts Institute of Technology, has had lengthy experience in the Canadian petroleum and pipeline industries and we are pleased to announce his association with us.

When Westcoast began operations just a decade ago, the daily throughput of the pipeline was less than 200 million cubic feet. Now, in order to meet the extraordinary growth of market demand in recent years, the Company is planning to begin looping its main line, preparing to deliver as much as one billion cubic feet per day. Westcoast's gas supplies are being developed apace with its markets. Our subsidiary and affiliated companies are expanding and prospering. In the light of all these favorable trends, shareholders can confidently look forward to increased earnings and dividends.

For the Board of Directors,

Frank M. McMahon
Chairman and President

THE WESTCOAST PIPELINE SYSTEM

The Westcoast natural gas transmission system extends from the gas-producing areas of northeastern British Columbia and northwestern Alberta to the Canada-United States border at Huntingdon, B.C., 30 miles east of Vancouver. The system includes 866 miles of 30-inch diameter pipeline and more than 700 miles of gathering lines of smaller diameter. The present capacity of the Westcoast system is 700 million cubic feet per day.

WESTCOAST SUPPLIERS

The following is a partial list of producing companies from which Westcoast purchases its supplies of natural gas: Pacific Petroleums Ltd., Imperial Oil Limited, The British American Oil Company Limited, Sinclair Canada Oil Company, Pan American Petroleum Corporation, Shell Oil Company of Canada, Limited, Texaco Canada Limited, Sun Oil Company, Fargo Oils Ltd., Dome Petroleum Limited, Socony Mobil Oil of Canada, Ltd., Atlantic Refining Company, Canadian Fina Oil Limited, Richfield Oil Corporation, Sohio Petroleum Company, Canadian Kewanee Limited, Monsanto Chemical Company, Ashland Oil & Refining Company, Whitehall Canadian Oils Ltd., Amerada Petroleum Corporation, Triad Oil Co. Ltd., Canadian Delhi Oil Limited, Tenneco Oil Company, Denison Mines Limited, Skelly Oil Company, Westcoast Production Co. Ltd., Medallion Petroleums Limited, Canadian Seaboard Oil Company, Canadian Export Gas & Oil Ltd., Hudson's Bay Oil and Gas Company Limited, Apache Corporation, Marathon Oil Company, Placid Oil Company and Frontier Oil & Gas Ltd.

WESTCOAST CUSTOMERS

The Company sells natural gas to three principal customers:

Inland Natural Gas Co. Ltd., serving communities and industry in the interior of British Columbia.

British Columbia Hydro and Power Authority, serving the populous Lower Mainland area of British Columbia, including the City of Vancouver.

El Paso Natural Gas Company (Northwest Division), serving utility companies in Washington, Oregon and Idaho. These utilities include: Washington Natural Gas Company, Northwest Natural Gas Company, The Washington Water Power Company, Cascade Natural Gas Corporation, Intermountain Gas Company, California Pacific Utilities and Southwest Gas Corporation.

MAP SHOWING
WESTCOAST SYSTEM
OVERLEAF

SALES AND MARKETS

Westcoast supplies natural gas to the rapidly expanding Pacific Northwest which includes the Province of British Columbia and the three states of Washington, Oregon and Idaho. This large, resource-rich area has a total population of 6.9 million.

During the past year, Westcoast's sales to this market increased 12.5%, from 169 billion cubic feet to 191 billion cubic feet. This substantial gain was made despite the fact that an unusually mild winter was experienced throughout the Company's market area. During the prime heating months of September through March, the number of degree days at Vancouver was 5.2% less than the previous year.

Figures compiled recently by the Canadian Gas Association showed the Province of British Columbia to be the fastest-growing natural gas market in Canada. This was borne out by Westcoast's sales records which showed a 15% increase in deliveries to the B.C. market, a growth rate 50% higher than the national average.

The increased demand for natural gas in British Columbia reflects the dramatic population growth and economic expansion under way in this region of Canada. Latest census figures show British Columbia's population to be growing faster than any other province's. Last year, the Province's population increased by 70,000, with 43,000 persons entering the labor force. During the past decade, the B.C. labor force has grown at a rate 52% above other regions of Canada.

Natural gas service is installed in 95% of Vancouver's new apartments, including these handsome high-rise buildings recently completed in midtown.

British Columbia's economy showed significant gains in all sectors last year, particularly in record capital outlays of $2.4 billion, a 16% increase over 1965. Of particular significance to Westcoast was the fact that so much of the new investment was directed to industries which are large users of natural gas, i.e. pulp and paper mills and mine smelters.

The natural gas needs of the expansive British Columbia economy are presently being served by two major utilities, and a third pipeline system is in the advanced planning stage. Westcoast's relations with these individual customers in the past year are summarized below:

B.C. HYDRO AND POWER AUTHORITY which distributes natural gas to the densely populated area of the Lower Mainland registered an increase of 7,390 residential customers and 775 new commercial customers, bringing the total number of customers serviced to 161,087. The Authority's sales to residential, commercial, and industrial customers were 10.7% over 1965.

In co-operation with Westcoast, B.C. Hydro launched a very successful gas conversion campaign aimed at houses and apartment buildings using other fuels. During the six-month promotional period, 1,465 houses and 2,850 apartment suites were converted to gas heating. Gas heating in new homes and apartments continued to contribute a substantial portion of B.C. Hydro's

completion of 30 successful new wells increased gas supplies available for Peace River area system. Page 11.

Granted a permit by B.C. Public Utilities Commission, newly-formed Pacific Northern Gas Ltd. began route survey for 400-mile pipeline. Page 8.

Continued growth of British Columbia crude oil production led to expansion program for Company-affiliated Western Pacific pipeline. Page 13.

Record industrial development and population growth throughout this area expanded markets, sales and earnings of local utilities supplied by Westcoast. Page 7.

Under temporary U.S. Federal Power Commission permit, Westcoast increased exports to El Paso Natural Gas Company by 100 million cubic feet per day. Page 3.

In this tri-state market area, privately-owned utilities and public service commissions joined in requesting additional supplies of natural gas. Page 2.

SALES AND MARKETS

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Indicative of population growth and development in the interior of British Columbia is newly-built Selkirk College at Castlegar. First regional college in the province, Selkirk expects ultimate enrollment of 3,000. Campus buildings are serviced with natural gas.

increased sales as gas heating was selected for about 95% of new houses and apartments in the Authority's natural gas service areas.

The Authority continued to expand its service by adding 119 miles of natural gas mains, bringing the total to 3,046 miles at year-end. The installation of their 8-inch pipeline to Sea Island will provide service to the new air terminal building and airport maintenance facilities at Vancouver Airport as well as open up a new residential market.

B.C. Hydro facilities serve the viable B.C. economy by providing energy requirements to such major industrial users in the Vancouver area as Lafarge Cement Company, Hooker Chemicals, B.C. Sugar and Island Paper mills.

A significant new development last year was the introduction of a total energy system fueled by natural gas. Finning Tractor & Equipment Co. Ltd. installed the first total energy system in the Lower Mainland, demonstrating that natural gas can produce power requirements for air conditioning, heating, generation of electric power and refrigeration, at lower costs and with greater reliability. There are two additional major total energy projects being planned at present.

Natural gas consumption at the Burrard thermal generating plant was 19.1 billion cubic feet last year. The demand expected for the 1967-1968 season is 32 billion cubic feet and it is anticipated that the addition of the fifth generating unit during 1968 could increase consumption a further 8 billion per year.

Powered by natural gas, this compact plant generates electricity for all purposes in the Finning Tractor & Equipment Co. Ltd. factory at Vancouver. This is the first "total energy" plant in British Columbia.

INLAND NATURAL GAS CO. LTD. which distributes gas to communities and industries in the rapidly expanding central interior of British Columbia increased its volume by a phenomenal 58%. Part of this increase resulted from three major pulp mills coming on stream during the past year. In addition to the pulp mills, an ever increasing number of lumber mills are using natural gas for their dry kiln operations. Also, sales have increased with the development of such industries as carpet manufacturing and truck assembly plants in Kelowna, B.C.

In agriculture, expanded uses of natural gas such as greenhouse heating, irrigation pumping, apple waxing and controlled atmosphere storage of apples are being found.

Economic use of low-grade ores and an increase in open pit mining operations, new and more efficient processes, and sophisticated searching equipment have opened up numerous new mining operations in the area served by Inland.

The industrial and population growth has created many new communities, which has led to new homes, apartment blocks, hospitals, sports arenas and other buildings to be served by natural gas throughout the interior. In recent years Inland succeeded in providing gas to more than 90% of new construction.

Inland's present distribution system covers over 1,000 miles which serves 26,977 residential customers and 5,018 industrial and commercial customers.

PACIFIC NORTHERN GAS LTD. received a Certificate of Public Convenience and Necessity to supply natural gas to North Central B.C. Pacific Northern's system will transport gas from a point on Westcoast's main line near Prince George to Prince Rupert and distribute to consumers and industries in the communities along the pipeline.

The potential market consists of 14 communities and approximately 50,000 people. The two industries of pulp and paper and aluminum will be the principal factors in the development of the area. The market forecast indicates a sales volume of 9.5 billion cubic feet in 1969 rising to 19.1 billion cubic feet in 1975. The

Largest and most advanced manufacturing complex served with Westcoast gas is the Boeing Company at Seattle, Wash., where the first U.S. supersonic transport (SST) is under construction. Shown here in full-scale mock-up, the completed SST will transport 350 passengers intercontinental distances at 1,800 miles an hour.

company presently has a minimum of 8.1 billion cubic feet under contract.

VANCOUVER ISLAND PIPELINE. Work progressed during the year on the proposal to build an underwater pipeline to Vancouver Island which was described in Westcoast's 1966 Annual Report. Major industrial concerns and communities on the Island are participating in a detailed survey of the potential natural gas market there. It is expected that with this new study, taking into account all the recent population and industrial growth in the area, it will be proved practicable to begin work on this project in the near future.

In the last ten years natural gas has taken its place as one of the prime sources of energy for the fast-growing states of Washington, Oregon and Idaho. Householders, commercial, and industrial users throughout this tri-state area have increasingly turned to natural gas which is mainly supplied by Westcoast Transmission Company.

EL PASO NATURAL GAS COMPANY purchases Westcoast gas at Sumas near the Canadian-U.S. border and delivers it to major distribution companies, including Washington Natural Gas Company, Northwest Natural Gas Company, The Washington Water Power Company, Cascade Natural Gas Corporation, Intermountain Gas Company, California-Pacific Utilities Company and Southwest Gas Corporation which service the three-state area of Washington, Oregon and Idaho.

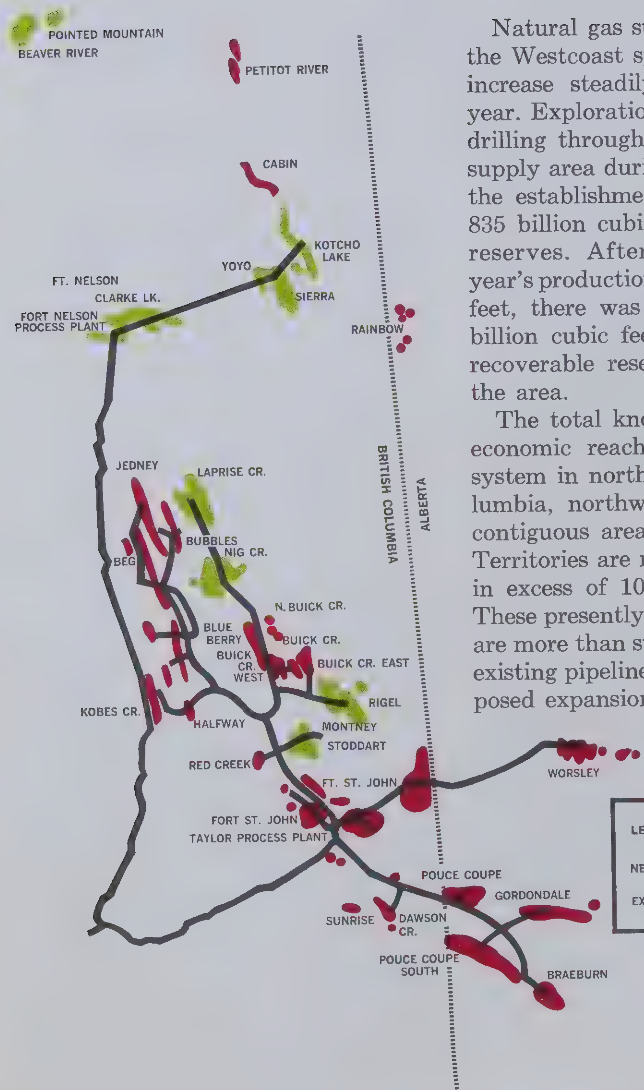
In the past decade, the number of customers of these distribution companies has more than tripled. At the beginning of 1957, Pacific Northwest distributors had approximately 150,000 customers, by 1966 they had almost half a million. From 1960 to 1966, the Northwest Division of El Paso expanded its system to inaugurate 59 additional communities in Oregon, 28 additional communities in Idaho and 40 additional communities in Washington, thus instituting natural gas in a total of 127 additional communities in the three-state area.

Natural gas not only plays an important role in contributing to the comfort and pleasure of the residents of the tri-state area, but is a key source of energy to such fast-growing companies as Alcoa Aluminum, Bethlehem Pacific Coast Steel Corporation, The Boeing Company, Crown Zellerbach Corporation, Kennecott Copper Corporation, Monsanto Chemical Company, Scott Paper Company, Texas Gulf Sulphur, Union Carbide Nuclear Company, Weyerhaeuser Timber Company, and many more.

Industrial production has jumped by more than one third in the past decade, creating a much wider market for natural gas. The seven distributors have all indicated substantially increased demands, and in fact have had to curtail interruptible industrial service in the past two heating seasons. The increase in firm contract demands aggregated 164 million cubic feet per day during the past heating season and commitments already total a further 58 million cubic feet per day for the 1967-1968 season.

Although Westcoast increased its sales to El Paso by 11 billion cubic feet last year, the supply was inadequate to meet the demand. Large increases of natural gas supplied by Westcoast will be required to offset the accumulated shortage in the recent past and to meet the new demands of the future.

GAS SUPPLY



Natural gas supplies available to the Westcoast system continued to increase steadily during the past year. Exploration and development drilling throughout the Company's supply area during 1966 resulted in the establishment of an estimated 835 billion cubic feet of additional reserves. After replenishing the year's production of 220 billion cubic feet, there was a net gain of 615 billion cubic feet in the estimated recoverable reserves established in the area.

The total known reserves within economic reach of the Westcoast system in northeastern British Columbia, northwestern Alberta and contiguous areas of the Northwest Territories are now estimated to be in excess of 10 trillion cubic feet. These presently established reserves are more than sufficient to serve the existing pipeline system and its proposed expansions.

The new export contract negotiated early in 1966 by Westcoast with El Paso Natural Gas Company created additional incentive for producers to explore for and develop new gas reserves in the Company's supply area. During the year, 96 exploratory wells were completed. This was a 50% increase over the 1965 total and it was the most active exploratory drilling program ever carried out in this area.

Some of the most substantial increments in reserves were recorded in the general Fort Nelson district of British Columbia to where a major extension of the Westcoast system was completed in 1965.

The limits of the large Clarke Lake field were extended significantly as a result of successful drilling by Pacific Petroleums Ltd., Imperial Oil Limited, Hudson's Bay Oil & Gas Co. Ltd., and Union Oil Company of Canada. Seven successful wells were completed and the known limits of the Clarke Lake reservoir were enlarged approximately one mile to the north, four miles to the southeast and eight miles to the southwest. The new wells compared favorably with those previously drilled in the remarkable Clarke Lake reservoir, with pay zones more than 150 feet thick and absolute open flow potentials in some instances exceeding 100 million cubic feet per day.

The known reserves of the Sierra

Exploration continues year-round in the Company's supply area. Here, a well is drilled in midwinter by Imperial Oil, a major Westcoast supplier.

field, which was discovered in 1965, were essentially doubled as a result of successful stepout drilling carried out there by Socony Mobil Oil of Canada, Ltd. A major extension to the south of the discovery area increased the estimated reserves of this new field to approximately 400 billion cubic feet.

Development drilling also proved additional reserves in the Yoyo and Kotcho fields. The established Yoyo reserves were increased by approximately 170 billion cubic feet. The open flow potential of one of the new wells in the Yoyo field was 115 million cubic feet per day and that of a new Kotcho well was 100 million cubic feet. With these potentials the new wells rank among the largest that have been drilled to date in the Fort Nelson area.

During the past year, pipeline facilities consisting of 24-inch and 12-inch diameter pipe were completed to the Sierra, Yoyo and Kotcho fields. Field production facilities are now under construction by Pacific, Mobil and other operators which include Tenneco Oil and Minerals Ltd., Canadian Kewanee Ltd. and Placid Oil Company. Initial production from the three fields is expected to total 173 million cubic feet per day.

Successful exploratory and development drilling continued last year in the Peace River district of northeastern British Columbia and northwestern Alberta with the result that the supply of gas was maintained and increased for Westcoast's gathering system and plant complex in that area. The most noteworthy results were obtained in the Laprise, Nig Creek, North Buick Creek, Stoddart and Rigel areas. A total of 30 productive new wells, most of which were in the exploratory or stepout category, was drilled in this sector during the past year.

A major factor in Westcoast's future gas supply will be the contract negotiated by the Company in January this year with Pan American Petroleum Corporation, a wholly-owned subsidiary of Standard Oil Company (Indiana). This contract calls for purchases of up to 200 million cubic feet per day from estimated reserves of 1.5 trillion cubic feet of gas which Pan American is presently developing in northeastern British Columbia and adjoining areas of the Yukon and Northwest Territories. A prime source of this gas will be the Beaver River field on the B.C.-Yukon boundary where a pay zone 1200 feet thick was penetrated and where reserves totalling 750 billion cubic feet are already established. During the past year, an exploratory well drilled by Pan American discovered a second field at Pointed Mountain, northeast of the Beaver River reservoir.

Delivery of gas from Beaver River and surrounding area will necessitate construction of a 110-mile pipeline extension from Westcoast's Fort Nelson processing plant. This extension, costing $15 million, is scheduled to be completed early in 1969 and first gas deliveries from the area to the Westcoast system will begin in November of that year.

Prior to the construction of the Beaver River pipeline extension it is expected that intensified drilling will be done throughout this area to develop the extensive reserves indicated by the wells that have been completed to date. Other operators will be able to share in the sale of gas to Westcoast on a pro rata basis as they develop reserves.

Reference was made in the last year's Annual Report to a proposal by Westcoast to build a sulphur extraction plant in the Fort Nelson area. This project is still under active consideration by the Company and its feasibility and potential have been increased by the above-mentioned rapid development of reserves in the Beaver River-Pointed Mountain area. Added to the production of the large Fort Nelson district fields, they represent an abundant supply for the proposed plant.

SUBSIDIARIES AND AFFILIATES

The asset value of Westcoast's subsidiaries and the market value of its holdings in affiliated companies totalled approximately $41,381,535 at March 31, 1967. During the year, the Company received dividends from the subsidiaries in the amount of $812,000.

The year's activities of the major companies associated with Westcoast are summarized below:

WESTCOAST PRODUCTION CO. LTD. (wholly-owned) significantly expanded its oil and gas exploration program. The company acquired 765,125 gross (61,163 net) acres of additional prospective land, thus increasing its total gross and net acreage figures to 3,573,683 and 550,104 respectively. A drilling program consisting of 35 exploratory and development wells was carried out on these properties by Westcoast and associated companies.

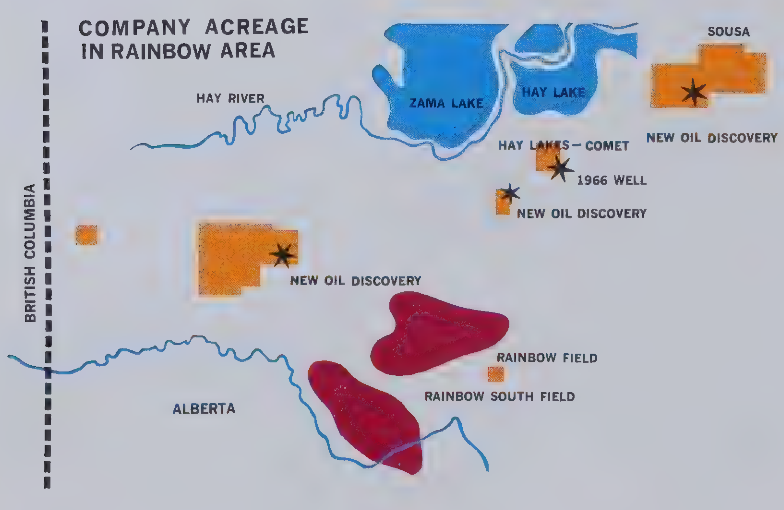
At the year-end, 30 of the scheduled wells had been completed and five were drilling ahead. Among the completions were five oil wells and eight gas producers.

Two of the successful oil wells were completed in the Rainbow Lake area of northwestern Alberta where Westcoast Production has acquired several blocks of acreage in association with an affiliate, Western Pacific Products & Crude Oil Pipelines Ltd. One of the successful wells in the Rainbow Lake area was drilled in the Sousa district, 20 miles northeast of the main Rainbow field. This well had more than 180 feet of pay and, on initial test, flowed at a rate of 1,700 barrels per day. The discovery was made in the Keg River formation which is the same productive zone as that at Rainbow

The second Rainbow Lake area oil well was completed in the Hay Lakes-Comet area, eight miles northeast of the Rainbow field. This was a stepout well which followed an oil discovery made in this area a year ago. The new well found more than 60 feet of pay in the Keg River formation and, on initial test, flowed at a rate of 350 barrels per day. Westcoast Production and Western Pacific share a 25% interest in the Sousa and Hay Lakes-Comet properties. The remaining interest is held by Pacific Petroleums Ltd. Further development drilling will be done on this acreage.

One of the uncompleted wells which Westcoast Production was proceeding to drill at the year-end is on an 8,640-acre drilling reservation in the Rainbow area, eight miles west of the main Rainbow pool. A detailed seismic survey was made on this property and the exploratory well was drilled on a promising anomaly located there. All indications are that this also is an oil discovery well. However, because of the spring break-up a complete test of the well's potential has not yet been made. Westcoast Production and Western Pacific share a 50% interest in this property, with other interests held by Sinclair and Sunray Oil.

The new natural gas wells completed by the company during the year were drilled on properties in which Westcoast Production holds varied interests in northeastern British Columbia. One of the most significant of these wells was completed in the Clarke Lake area. This well could not be fully tested prior to the spring break-up but it is known to confirm a westward extension of the highly productive Clarke Lake reservoir on to acreage in which the company holds a 12½% interest. Two other successful gas wells were completed in the North Buick Creek area with respective



absolute open flow potentials of 3.7 million and 7.8 million cubic feet per day. Westcoast's interest in these properties is 25%.

As a result of these and other natural gas discoveries and developments, it is estimated that Westcoast Production's net gas reserves were increased last year by upwards of six billion cubic feet.

Through its production of crude oil, natural gas and natural gas liquids, the subsidiary generated income of $762,901 during the year.

WESTERN PACIFIC PRODUCTS & CRUDE OIL PIPELINES LTD. (45% owned) operates a 505-mile pipeline which transports crude oil and products from northeastern British Columbia to markets in the Lower Mainland of the Province.

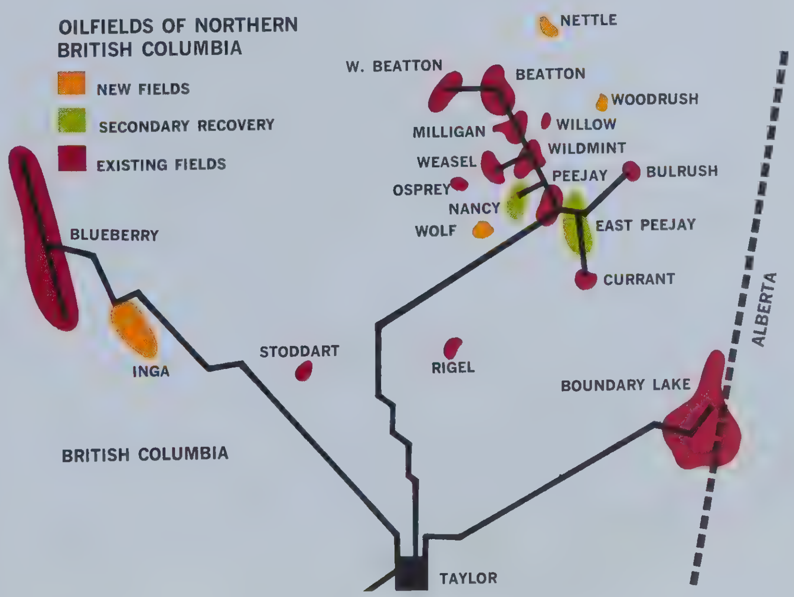
In its fiscal year ended December 31, 1966, Western Pacific reported a 26% increase in operating revenues, and its net earnings, after taxes, reached $2,782,917 or 41.5¢ per share, an increase of 55% over the previous year.

The favourable 1966 results were obtained with an average throughput of 41,636 barrels per day. In the first quarter of 1967, Western Pacific's deliveries averaged 43,900 barrels per day. The first phase of a $6.6 million program to expand the pipeline's capacity to 58,000 barrels per day is now nearing completion and pumping rates in excess of 56,000 barrels per day have been experienced in the second quarter of the current year. When the next stage of the expansion program is completed in 1968, the pipeline's capacity will be increased to 64,000 barrels per day.

During the latter part of 1966, Western Pacific put into effect a new tariff schedule designed to provide a more flexible and realistic system of rates. The new rates vary according to the pipeline's throughput, increasing during periods of reduced deliveries and decreasing when deliveries are high. Besides providing more equitable revenues for the company, it is felt that the new schedule will offer additional incentive to producers to develop more fully the oil potential of northern British Columbia.

Since November 1, 1966, the date when the new tariff went into effect, production has increased markedly in Western Pacific's supply area. Four new fields have been discovered at Inga, Wolf, Woodrush and Nettle. The largest of these is the Inga field which is already producing 2,500 barrels per day and where production is expected to increase substantially as additional locations are drilled. Stepout drilling has extended several of the existing fields, particularly East Peejay and Milligan Creek. In the latter part of 1966, secondary recovery programs utilizing water flooding were installed in the Nancy and East Peejay fields. These installations are now becoming fully effective and production from these reservoirs has risen by 6,000 barrels per day, increasing from 9,500 to more than 15,600 barrels.

SARATOGA PROCESSING COMPANY LIMITED is an affiliated company in which Westcoast owns all (2,500) Class B (voting shares and 122,500 (24.6%) of the Class A shares. Saratoga owns and operates a gathering system and gas purification and dehydration plant to serve the Savanna Creek sour gas field in southwestern Alberta. Saratoga is paid cost of service and a 7½% return on the company's rate base. In the fiscal year ended December 31, 1966, the company's net income was $223,781.



FINANCIAL REVIEW

EARNINGS & DIVIDENDS

Net income for fiscal year ended March 31, 1967, was $5,530,619, more than double the earnings of $2,293,268 in the previous year. Per-share earnings rose from the previous year's figure of 34¢ per share to 83¢ per share last year, based on the number of shares outstanding – 6,657,784 at March 31, 1966, and 6,665,084 at March 31, 1967. In March 1967 the Company declared an initial dividend of 25¢ per share payable May 12, 1967, to shareholders of record at April 28, 1967.

REVENUES & EXPENSES

Operating revenues increased by $6,585,089 to $55,632,589, a gain of 13% over the previous year. These figures do not include revenues from the Kingsgate gas sales.

The total operating expenses amounted to $31,558,465, compared with $27,384,237 in the previous year. The increase was largely attributable to additional gas purchase costs due to the higher volumes of gas which were sold during the year. The total of operating and administrative expenses for the year was $12,847,296, an increase of $1,346,584. This increase arose mainly from the operating requirements of new facilities which saw limited service due to installation late in the previous year but which were on stream throughout last year. In addition to the staff needed to operate and maintain new facilities, there was an increase in supervisory and administrative personnel to keep pace with the Company's expanding operations. The continuing rise in wage and salary levels as well as in the cost of supplies and outside services also had an incremental effect on operating expenses.

Income deductions last year totalled $19,721,798, down $630,779 from the previous year's figure of $20,352,575. Most of the decline reflected reduction of interest charges on the Company's long-term debt. Interest chargeable to construction, $510,026, was largely offset by interest on bank loans and interim financing which amounted to $495,000.

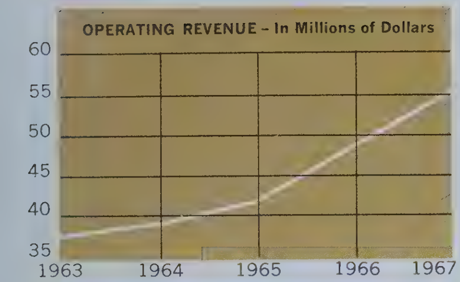
Depreciation expense shows a slight increase over last year due to the inclusion in the depreciation base of new plant placed in service during the previous year.

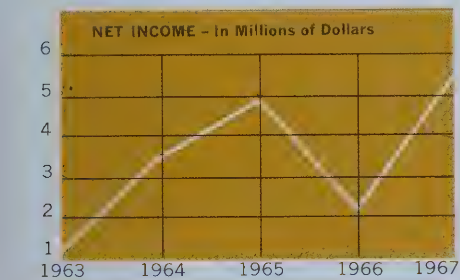
It is the Company's policy to express U.S. long-term debt in Canadian currency at the rate prevailing at the date when the U.S. funds were borrowed. Therefore, when debt of this nature is retired, a gain or loss is experienced depending upon the rate of exchange at date of retirement. During the past year, $8,900,000 U.S. ($8,748,000 Canadian) was retired at a current value of $9,607,000 Canadian, which resulted in an exchange cost of $859,000.

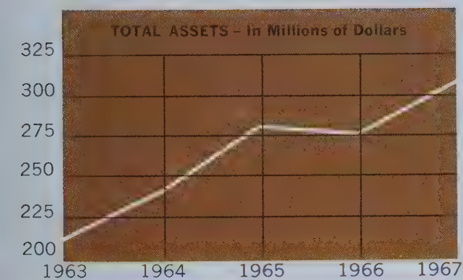
Expenditures incurred on the acquisition, carrying, exploration and development of oil and gas properties are capitalized as a cost of each leasehold acquired. When, in management's opinion, continuance of an unproductive leasehold does not warrant additional expenditures, the rights thereto are surrendered to the lessor and the cumulative costs are written off to expense. During the past year, the cumulative costs of surrendered petroleum and natural gas leases amounted to $759,981.

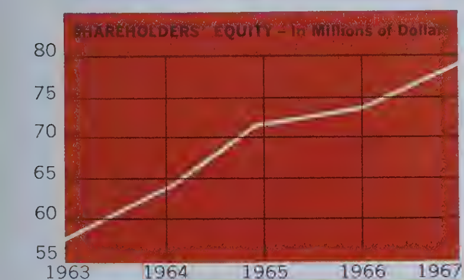
INVESTMENTS

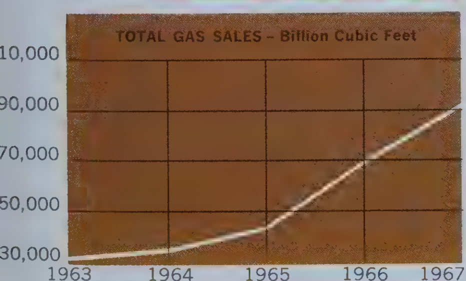
During the year $812,000 was received in dividends from investments in Western Pacific Products & Crude Oil Pipelines Ltd., and Saratoga Processing Company Limited. A further $495,000 of investment income was secured largely from temporary cash investments. During the latter part of the year surplus current funds were utilized to finance the construction program, and the return from temporary cash investments in this period was thereby considerably reduced. The Company's subsidiary, Westcoast Production Co. Ltd., sold 50,000 shares of Western Pacific Products & Crude Oil Pipelines Ltd. during the year. A capital gain of $630,895 was realized in this transaction and is shown as a special item in the Statement of Operations. Most of the cash generated by this sale of shares was committed to development expenditures.

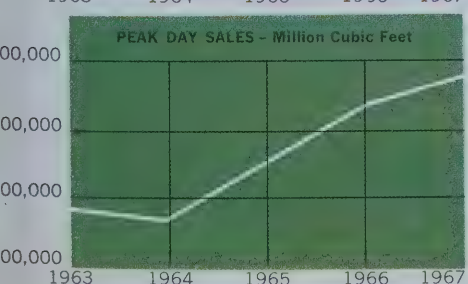












CASH FLOW

The cash flow from operations amounted to $13,979,328. This supplied ample funds for long-term debt retirements of $10,181,158, a dividend payment of $1,666,631, and sundry disbursements of $413,617. The balance of these funds, together with $32,699,155 provided from other internal resources and short-term borrowings, were used to defray capital expenditures in connection with the Company's major construction program which is discussed below. The net result was a decrease of $8,093,955 in the working capital position.

CONSTRUCTION PROGRAM

The 1967 major construction program, part of which already has been carried out, is estimated to cost $64,510,000. Of this amount, $15,660,000 pertains to new gas gathering and processing facilities in the Fort Nelson area of British Columbia and $48,844,000 is allocated to construction of additional facilities that will be required to implement a new contract for increased exports to the United States. The entire program has received approval by the National Energy Board of Canada. Authorization has not been given as yet by the Federal Power Commission of the United States for the increased gas importation and this has delayed commencement of work on the facilities for that purpose.

FINANCING

Arrangements have been made for the sale of $71,600,000 U.S. First Mortgage pipeline bonds. The proceeds will be used to cover the cost of the major construction which has been completed to date and that which is expected to proceed in the near future. Until such time as the cash is made available from this senior financing, construction expenditures are being financed by funds generated from internal sources and from bank loans and other short-term borrowings. The bank loans and other interim financing, which amounted to $31,710,279 at March 31, 1967, will be liquidated with the funds from the bond issue.

SHAREHOLDERS' EQUITY

Shareholders' equity at March 31, 1967, was $11.78 per share compared with $11.20 in 1966. The rate of return on average shareholders' equity last year was 7%, compared with a rate of 3% in the previous year.

INCOME TAX

As the companies claim capital cost and other allowances for income tax purposes in excess of amounts recorded in the accounts, no income tax is payable to date. The anticipated capital expansion and petroleum exploratory programs will continue to make such tax allowances available for a considerable period.

WESTCOAST TRANSMISSION COMPANY LIMITED

(Incorporated by Special Act of the Parliament of Canada) and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

March 31, 1967 (with comparative figures for the year ended March 31, 1966)

ASSETS

	1967	1966
PLANT, PROPERTY AND EQUIPMENT –		
at cost (Notes 1 and 3)	$335,096,725	$293,675,358
Less accumulated depreciation and depletion	56,053,226	48,373,248
	279,043,499	245,302,110
INVESTMENT IN UNCONSOLIDATED SUBSIDIARY – at cost (Note 1)	250,000	250,000
INVESTMENTS – at cost (market value 1967 – $19,004,821; 1966 – $14,482,407)	4,808,472	5,053,464
DEFERRED ACCOUNTS RECEIVABLE		
– employee housing loans	54,758	58,650
– 5% special refundable tax	157,726	—
	212,484	58,650
CURRENT ASSETS:		
Cash	1,012,147	2,412,825
Temporary cash investments – at cost	1,798,500	5,278,061
Deposits with trustees for payment of interest and principal on long term debt	7,393,902	6,739,986
Accounts receivable	8,198,403	6,519,068
Inventories – at cost	1,356,822	1,414,851
Prepaid expenses	209,489	234,648
	19,969,263	22,599,439
DEFERRED CHARGES:		
Unamortized debt discount, premium and expense (Note 1)	2,811,423	2,990,407
Organization expense	51,925	51,925
Other	374,789	114,951
	3,238,137	3,157,283
EXCESS OF COST OF INVESTMENT IN SUBSIDIARY OVER BOOK VALUE AT DATE OF ACQUISITION (Note 1)	2,254,005	2,415,009
	$309,775,860	$278,835,955

The accompanying notes are an integral part of the financial statements.

SHAREHOLDERS' EQUITY

	1967	1966
CAPITAL STOCK (Note 2)		
Authorized – 25,000,000 shares without nominal or par value		
Issued – 6,665,084 shares (1966 – 6,657,784 shares)	$ 58,345,483	$ 58,262,494
PAID IN SURPLUS	141,500	141,500
RETAINED EARNINGS	20,049,019	16,185,031
	78,536,002	74,589,025
LIABILITIES		
LONG TERM DEBT (Note 4)	175,888,592	186,069,750
BANK LOANS AND OTHER INTERIM FINANCING (Note 3)	31,710,279	—
CURRENT LIABILITIES:		
Accounts payable	6,121,138	4,010,075
Property and sundry taxes	1,200,271	613,483
Dividend payable	1,666,631	—
Interest on long term debt	4,631,020	4,746,484
Long term debt due within one year (Note 4)	10,021,651	8,806,890
	23,640,711	18,176,932
MINORITY INTEREST IN SUBSIDIARY COMPANY	276	248
	$309,775,860	$278,835,955

ON BEHALF OF THE BOARD:

DIRECTOR

DIRECTOR

WESTCOAST TRANSMISSION COMPANY LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended March 31, 1967 (with comparative figures for the year ended March 31, 1966)

		1967	1966
OPERATING REVENUES:			
Gas sales (Note 6)		$64,447,885	$57,746,803 +11.
By-products sales		3,013,972	2,709,557 +11.
Miscellaneous		462,772	425,714
		67,924,629	60,882,074
OPERATING REVENUE DEDUCTIONS:			
Gas purchases (Note 6)		29,119,987	25,647,791
Operating and maintenance (Note 6)		10,236,790	9,308,623
Administrative and general		2,610,506	2,192,083
Taxes - other than income taxes		1,883,222	2,070,314
		43,850,505	39,218,811
OPERATING INCOME		24,074,124	21,663,263
INVESTMENT AND OTHER INCOME		1,307,379	1,488,221
		25,381,503	23,151,484
INCOME DEDUCTIONS:			
Interest on debt – less interest charged to construction (1967 – $510,026; 1966 – $21,452) (Note 1)		10,491,995	10,921,248
Depreciation		7,502,229	7,447,229
Depletion		477,377	597,466
Amortization (Note 1)		161,004	151,083
Debt discount, premium and expense		178,985	178,986
Exploratory and non-producing property expense		65,209	118,491
Exchange cost re:			
Operations	$ (14,308)		
Redemption of long term debt	859,279	844,971	894,238
Minority interest in net income of subsidiary		28	20,096
Other income deductions		—	23,738
		19,721,798	20,352,575
NET INCOME FOR THE YEAR BEFORE SPECIAL ITEMS		5,659,705	2,798,909
GAIN ON SALE OF INVESTMENTS		630,895	—
SURRENDERED PETROLEUM AND NATURAL GAS LEASES		(759,981)	(505,641)
NET INCOME FOR THE YEAR (Note 7)		$ 5,530,619	$ 2,293,268

The accompanying notes are an integral part of the financial statements.

WESTCOAST TRANSMISSION COMPANY LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended March 31, 1967 (with comparative figures for the year ended March 31, 1966)

	1967	1966
BALANCE BEGINNING OF YEAR	$16,185,031	$17,037,488
ADD:		
Net income for the year	5,530,619	2,293,268
	21,715,650	19,330,756
DEDUCT:		
Dividend declared	1,666,631	—
Adjustments resulting from change in accounting policy on leasehold acquisition and development costs (Note 1)	—	3,145,725
BALANCE END OF YEAR	$20,049,019	$16,185,031

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended March 31, 1967 (with comparative figures for the year ended March 31, 1966)

	1967	1966
SOURCE OF FUNDS:		
Operations:		
Net income for the year before special items	$ 5,659,705	$ 2,798,909
Minority interest in net income	28	20,096
	5,659,733	2,819,005
Add non-cash items:		
Depreciation, depletion and amortization	8,140,610	8,195,778
Debt discount, premium and expense	178,985	178,986
	13,979,328	11,193,769
Bank loans and other interim financing	31,710,279	—
Sale of investments	875,887	—
Capital stock issued for cash	82,989	198,055
Proceeds from additional long-term borrowing (net of financing costs)	—	850,000
Miscellaneous items	—	761,413
	46,648,483	13,003,237
APPLICATION OF FUNDS:		
Additions to plant, property and equipment	42,480,976	3,240,509
Dividend declared	1,666,631	—
Long term debt retirement (net of exchange cost)	10,181,158	8,934,706
Miscellaneous items	413,673	252,377
	54,742,438	12,427,592
INCREASE (DECREASE) IN WORKING CAPITAL DURING THE YEAR	(8,093,955)	575,645
WORKING CAPITAL BEGINNING OF YEAR	4,422,507	3,846,862
WORKING CAPITAL (DEFICIT) END OF YEAR	$ (3,671,448)	$ 4,422,507

The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1967

1. ACCOUNTING POLICIES:

(i) PRINCIPLES OF CONSOLIDATION:

(a) The consolidated statements include the accounts of the Company and the following subsidiaries: Westcoast Production Co., Ltd.; Westcoast Transmission Company (Alberta) Ltd.; Westcoast Transmission Housing Ltd.; Westcoast Transmission Company Inc.; and Gas Trunk Line of British Columbia Ltd.

(b) The Company also owns 25% of the issued capital stock of Saratoga Processing Company Limited (including all the voting shares). The accounts of this company have not been included in the consolidated statements. At December 31, the fiscal year end of Saratoga, the Company's equity was as follows:

	1966	1965
Capital stock	$250,000	$250,000
Retained earnings:		
Balance beginning of year	174,713	148,032
Net income for year	55,945	57,931
	230,658	205,963
Dividends	37,500	31,250
Balance end of year	193,158	174,713
Total equity	$443,158	$424,713

(c) In consolidation of the accounts of Gas Trunk with those of the Company, the excess of the cost of the investment over the Company's share of the net book value of Gas Trunk at the date of acquisition amounted to $2,665,642. This amount is being amortized over the remaining life of the Gas Transportation Contract between the Company and Gas Trunk which expires in December, 1981.

(ii) DEPRECIATION:

With the exception of Gas Trunk, depreciation is calculated on straight line rates determined on the economic and physical life of the assets in service at the commencement of the fiscal period. Depreciation of Gas Trunk facilities is calculated on a straight line basis in accordance with its Gas Transportation Contract with the Company.

(iii) INTEREST DURING CONSTRUCTION:

Interest during construction has been charged to plant, property and equipment at rates varying from 6% to 7½% per annum.

(iv) DEBT DISCOUNT, PREMIUM AND EXPENSE:

Debt discount, premium and expense is being amortized over the terms of the respective issues.

(v) OIL AND GAS PROPERTIES:

Commencing April 1, 1965, the Company adopted a policy wherein all expenditures incurred on the acquisition, carrying, exploration and development of oil and gas properties are capitalized as a cost of each leasehold acquired. Seismic and other exploratory costs that cannot be readily identified with a property in which the Company has an interest are written off to expense during the fiscal period the expenditure is made. When an unproductive leasehold property is surrendered, all related costs are written off to expense. The cost of productive property is amortized over the life of the recoverable gas and oil reserves by regular charges to depletion expense based on the composite unit-of-production method.

In giving effect to the adoption of this policy, a net charge of $3,145,725 was made to Retained Earnings in the year ended March 31, 1966.

2. CAPITAL STOCK:

(a) During the year the Company issued 7,300 shares for a cash consideration of $82,989 upon the exercise of employee stock options.

(b) Share reservations and options:

(i) 100,000 shares were reserved for sale to such officers and directors and employees and under such terms and conditions as the directors may designate at prices not lower than 75% of the market price prevailing during the month preceding the month of such designation.

At April 1, 1966 options to purchase 51,050 shares were outstanding. During the year options for 1,000 shares were granted, options on 7,300 shares were exercised and an option on 400 shares was cancelled. At March 31, 1967 options were outstanding to purchase 44,350 shares, of which 32,900 have been allocated to directors and officers, at prices ranging from $11.25 to $23.80 per share exercisable from time to time to December 31, 1973; a total of 53,675 shares have been issued under this reservation and 1,975 shares remained unallocated.

(ii) 774,234 shares have been reserved for conversion of the 5½% Subordinate Debentures, Series C at the conversion rate as adjusted in accordance with the terms of the Indenture.

(iii) 1,745,313 shares have been reserved for the conversion of the First Mortgage Pipe Line Bonds 5¾% Convertible Series (Series D) and (Series E) at the initial conversion rate.

(c) The Indenture and Agreements relating to the Company's long term debt contain restrictions as to the declaration or payment of dividends on capital stock (other than dividends payable in capital stock).

Under the most restrictive provision the amount of retained earnings available for dividends at March 31, 1967 was $3,100,000 after providing for dividends of 25¢ per share to be paid May 12, 1967.

3. PLANT, PROPERTY AND EQUIPMENT:

The cost of these assets is as follows:

		1967	1966
Gas Transmission System:			
Gathering plant		$ 40,665,548	$ 35,812,793
Products extraction plant		30,324,427	29,849,861
Transmission plant		204,551,027	195,229,204
General plant		7,276,893	6,441,928
		282,817,895	267,333,786
Petroleum and natural gas leaseholds, reservations, permits, licences, surface rights, wells and production equipment		25,900,628	25,337,217
Construction in progress:			
Work in progress	$ 9,955,702		
Materials and equipment on hand	16,422,500	26,378,202	1,004,355
		335,096,725	293,675,358
Less:			
Accumulated depreciation		51,701,030	44,498,429
Accumulated depletion		4,352,196	3,874,819
		56,053,226	48,373,248
		$279,043,499	$245,302,110

The current construction program is estimated to cost $64,510,000 of which $25,867,000 has been expended at March 31, 1967. This program and other major construction completed in 1966 is being financed by the sale of $71,600,000 (U.S.) first mortgage pipeline bonds. During the interim period funds generated from internal sources, bank loans and other short term financing are being used.

4. LONG TERM DEBT:

Detail of the Companies' long term debt is as follows:

	United States Dollars	*Canadian Dollars* (a) 1967	1966
WESTCOAST TRANSMISSION COMPANY LIMITED:			
First Mortgage Pipe Line Bonds 4⅜% Series (Series A) due November 1, 1977, payable $2,950,000 (U.S.) semi-annually	$65,300,000	$ 63,213,399	$ 68,924,871
First Mortgage Pipe Line Bonds 5% Series (Series B) due November 1, 1969, payable $700,000 (U.S.) semi-annually	4,250,000	4,061,406	5,399,281
First Mortgage Pipe Line Bonds 6% Series (Series C) due November 1, 1980, payable $130,000 (U.S.) semi-annually	3,610,000	3,882,724	4,162,366
First Mortgage Pipe Line Bonds 5¾% Convertible Series (Series D) due November 1, 1984, payable $1,535,000 semi-annually commencing May 1, 1972 (b)	—	40,000,000	40,000,000
First Mortgage Pipe Line Bonds 5¾% Convertible Series (Series E) due November 1, 1984, payable $603,000 semi-annually commencing May 1, 1972 (b)	—	15,850,000	15,850,000
5% Notes due July 1, 1967	2,000,000	2,152,981	3,229,471
Thirty-two year 5½% Subordinate Debentures, Series A, due April 1, 1988	20,500,000	20,405,667	20,405,667
5½% Subordinate Debentures, Series B, due April 1, 1988	3,100,000	2,970,188	2,970,188
5½% Subordinate Debentures, Series C, due April 1, 1988 (c)	25,000,000	24,031,250	24,031,250
GAS TRUNK LINE OF BRITISH COLUMBIA LTD.:			
First Mortgage Sinking Fund Bonds 6%, Series A, due October 1, 1979, payable $238,000 (U.S.) semi-annually	6,132,000	6,250,414	6,602,887
6% Subordinate Debentures, Series A, due October 1, 1981, payable $60,000 semi-annually	—	2,940,000	3,000,000
Less purchased by Company in advance of repayment requirements	—	(212,000)	(117,000)
		185,546,029	194,458,981
Mortgage payable by subsidiary company on employee housing with interest at 5¼%	—	364,214	417,659
		185,910,243	194,876,640
Deduct long term debt maturing within one year – shown as current liability	—	10,021,651	8,806,890
		$175,888,592	$186,069,750

(a) Long term debt sold in United States funds and the portion maturing within one year have been converted at the exchange rates prevailing at the respective dates of sale.

(b) Convertible at various rates from $32 to $37 per share to November 1, 1976.

(c) Convertible into shares at $32.29 (U.S.) per share if converted on or before September 1, 1967 and at $34.69 (U.S.) per share if converted thereafter and on or before July 15, 1978.

5. REMUNERATION OF DIRECTORS:

The total remuneration paid to the Directors of the Company during the year as directors, officers or employees amounted to $260,100 (1966 – $256,900).

6. GAS EXPORTED AT KINGSGATE, BRITISH COLUMBIA:

Included in the operating accounts are the revenues and expenses associated with deliveries of gas in southern Alberta, southern British Columbia and at Kingsgate for export to the United States. Under the terms of the sales agreements, the sales price of the gas delivered is equivalent to the cost of the gas to the Company namely:

	1967	1966
Cost of gas purchased	$ 8,185,095	$ 7,522,510
Cost of processing and transportation	4,106,945	4,312,064
Sales price included in gas sales	$12,292,040	$11,834,574

7. INCOME TAXES:

No provision for income taxes is required as the companies claim capital cost and other allowances in excess of amounts recorded in the accounts sufficient to offset taxable income. If income tax regulations did not permit these deductions, the tax provision for the year would have been approximately $3,000,000. The accumulated amount by which income taxes have been so reduced in this and prior years is approximately $11,800,000.

8. CONTINGENT LIABILITIES:

An action, commenced in 1961, against a gas supplier of the Company, in which the Company has been joined as a defendant, remains unsettled. This action claims certain alleged benefits under farm-out agreements between the plaintiff and the gas supplier and for damages for breach of contract in the amount of $5,000,000. The Company has denied any liability and, in the opinion of Counsel, there is nothing to justify or support the substantial monetary claim or other claims of substance put forward by the plaintiff.

AUDITORS' REPORT

To the Shareholders of
Westcoast Transmission Company Limited.

We have examined the consolidated balance sheet of Westcoast Transmission Company Limited and its subsidiary companies as at March 31, 1967 and the consolidated statements of operations, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Westcoast Transmission Company Limited and its subsidiary companies as at March 31, 1967 and the results of their operations and the sources and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada.
June 1, 1967.

CLARKSON, GORDON & CO.,
Chartered Accountants.

WESTCOAST TRANSMISSION COMPANY LIMITED

and Subsidiary Companies

10 YEAR FINANCIAL AND STATISTICAL REVIEW

FINANCIAL

(Dollar amounts are in thousands, except per share figures)

	1967	1966	1965	1964	1963	1962
Operating Revenues	$ 55,633	$ 49,048	$ 42,130	$ 39,284	$ 38,480	$ 33,23
Net Income (Loss)	5,531	2,293	5,085	3,658	1,322	2,16
– per Share	.83	.34	.77	.57	.21	.3
Cash Flow	13,979	11,194	11,075	9,852	8,706	7,89
– per Share	2.10	1.68	1.67	.153	1.40	1.2
Total Assets	309,776	278,836	284,249	240,101	215,826	218,92
Long-term Debt	175,889	186,069	194,154	148,083	144,705	141,81
Plant, Property and Equipment	335,097	293,675	294,152	238,416	217,437	215,89
Accumulated Depreciation and Depletion	56,053	48,373	40,394	34,076	27,087	21,48
Shareholders' Equity	78,536	74,589	71,700	64,136	57,422	56,06
– per Share	11.78	11.20	10.85	9.98	9.25	9.

STATISTICAL

	1967	1966	1965	1964	1963	1962
Total Gas Sales – Millions of Cubic Feet	191,040	169,848	146,834	136,755	132,487	118,7
Daily Average Sales – Thousands of Cubic Feet	523,397	465,337	402,287	373,648	362,978	325,3
Peak Day Sales – Thousands of Cubic Feet	685,236	645,991	556,801	475,024	480,569	444,0
Shares Outstanding	6,665,084	6,657,784	6,610,104	6,424,145	6,206,725	6,202,5
Number of Shareholders	11,822	12,650	14,500	14,773	16,658	16,8
Number of Employees	402	330	324	298	274	2

Adjustments have been made from year to year to show all data comparable with current method of reporting.

1961	1960	1959	6 Mo. 1958
28,685	$ 23,148	$ 22,067	$ 8,584
(149)	(606)	(834)	(828)
(.02)	(.10)	(.14)	(.14)
5,757	4,056	3,771	965
.93	.67	.64	.16
215,976	217,849	223,271	227,428
148,849	156,419	164,055	169,822
214,411	213,327	212,275	208,476
15,843	10,589	6,151	1,740
51,913	50,062	49,631	50,315
8.38	8.24	8.40	8.52
106,986	89,383	87,847	36,148
293,112	244,217	240,677	198,893
357,961	314,726	302,770	287,534
195,105	6,077,205	5,905,905	5,904,105
17,199	17,330	16,818	17,045
220	219	253	247

REGISTRARS

SHARES

Canada Trust Company
Montreal, P.Q.; Toronto, Ont.; Calgary, Alta.; Vancouver, B.C.

Chemical Bank New York Trust Company
New York, N.Y.

BONDS

Montreal Trust Company
Calgary, Alta.

(Series A, Series B, Series C, Series D, Series E)

DEBENTURES

First National City Bank
New York, N.Y.

Montreal Trust Company (co-registrar)
Montreal, P.Q.; Toronto, Ont.; Calgary, Alta.; Vancouver, B.C.

TRANSFER AGENTS

SHARES, BONDS, DEBENTURES

Montreal Trust Company
Montreal, P.Q.; Toronto, Ont.; Calgary, Alta.; Vancouver, B.C.

First National City Bank
New York, N.Y.

(Series E Bonds also are transferable at the Montreal Trust Company branch in Winnipeg, Man.)

Listed on the Toronto, Montreal, and Vancouver Stock Exchanges in Canada and the New York and Pacific Coast Stock Exchanges in the United States.

Auditors: Clarkson, Gordon & Co.,
Vancouver, B.C.

WESTCOAST TRANSMISSION COMPANY LIMITED
ANNUAL REPORT 1967

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